

IN THE MATTER OF	*	BEFORE THE
BALTIMORE WASHINGTON	*	MARYLAND HEALTH
MEDICAL CENTER	*	CARE COMMISSION
Docket No: 09-02-2292	*	
*   *   *   *   *		

**RESPONSES TO ADDITIONAL  
INFORMATION QUESTIONS**

- 1. The net present value analysis of the shell space is incomplete. Please answer the following questions:**

- A. What is the interest rate, start date, and length of the loan for constructing the shell space?**

The start date for construction of shell space is December 2009. Construction will be financed by a 5% tax-exempt 30 year loan.

- B. What is the interest rate, start date, and length of the loan for outfitting the shell space?**

Outfitting of the shell space is expected in 2017. Operating funds will be used to pay fit-out costs.

- C. What is the basis for the discount factor chosen?**

The discount factor is the tax-exempt bond rate of 5%.

- D. What is the assumed value for inflation of construction costs?  
What is the basis for this assumption?**

Four percent (4%) was used as the inflation factor, based on the recommendation of BWMC's architect.

**E. For each year in the project time frame, you should include and distinguish between the costs and the benefits. It appears that you have only accounted for the benefits in some years.**

Following discussion with Staff, the net present value analysis was revised to include the impact of the interest costs associated with constructing shell space in 2010. Additional costs associated with the need to move an air handler a second time if the shell space component is not performed now has been added as well. Specifically, if the shell space is constructed now, three air handlers will be relocated to the roof of the new structure. If the shell space is not constructed now, however, the roof of the new structure will not be large enough for three air handlers. Hence, one of the air handlers will have to be placed on the existing roof. That air handler will have to be moved from that location and placed on the roof of the structure being enlarged in 2017 if the shell space work is not done now. The additional cost of needing to move an air handler a second time if the shell space work is done in 2017 is \$1,000,000. The prior net present value analysis did not include this additional cost if the shell space work is deferred to 2017. A revised net present value analysis is attached as **Exhibit 1**. As related there, savings associated with building the shell space now, rather than in 2017, is \$939,965.

**F. If there are costs due to construction disrupting the surgical suite, Emergency Department, or other space, please quantify these costs and apply to the appropriate year(s).**

BWMC's net present value analysis does not reflect the impact on operations and revenue if construction of the shell space and fit-out for three additional operating rooms begins in 2017. If BWMC had to implement the project in this manner, it would do everything possible to minimize the impact on surgical volumes, including extending the hours when surgery is performed and doing surgical cases on the weekends. While there may, if fact, be

some disruption, BWMC believes that if it has to construct both the shell and fit-out space in 2017, this work can be done in a way that the impact of surgical volumes and revenue will be minimal.

2. **In the second round of completeness questions concerning this project, MHCC staff asked BWMC to “provide an itemized list of the major movable equipment,” which, at that time, was estimated to cost \$8,900,000. In response, BWMC provided two itemized equipment list, one labeled “GENERAL OR EQUIPMENT LIST” and the other labeled “SPD Preliminary Equipment List.” The total cost estimates for the listed equipment on both lists appears to be \$3,906,905, well below the \$8,900,000 cost estimate for major movable equipment at that time.**

**BWMC, in its modified project cost estimate, has reduced the equipment cost estimate substantially (\$3.8 million or 43%) and the contingency allowance (\$500,000 or 25%) in what is obviously a dollar for dollar offset of the increased cost of new construction and renovation in order to keep the overall project cost estimate for the modified project unchanged. Please answer the following questions concerning the project budget estimate:**

- A. **Provide an itemization of the full \$8.9 million major movable equipment cost estimate in the original project budget and provide an itemization of the full \$5.1 million major movable equipment cost estimate in the modified project budget, in sufficient detail so that MHCC can see what major movable equipment planned for purchase in the original project has been eliminated in the modified project.**

The \$8.9 million equipment estimate in the original Project Budget includes costs identified on the itemized General Operating Room Equipment List (\$2,351,040), costs identified on the SPD Preliminary Equipment list (\$1,555,865), and air handler costs (\$2,000,000). The total cost for these three items is \$5,906,905. The balance of the \$8.9 million in equipment costs (\$2,993,095) was an estimate of the cost for IT equipment and furniture. When the original Project Budget was filed with the CON application in February 2009, BWMC believed that this amount, most likely, overstated the costs for these items. To

be conservative, however, this amount was used as a placeholder until more detailed information about the remaining equipment costs could be obtained.<sup>1</sup>

Although detail about the cost of IT equipment and furniture had not been obtained when the modifications were submitted in August 2009, the new construction component of the Project Budget increased from the original \$13,654,155 to \$15,042,000.<sup>2</sup> Renovation costs also increased from \$5,370,845 to \$6,283,000. The increased new construction and renovation cost projections, which are based on estimates provided by The Whiting-Turner Contracting Company (“Whiting-Turner”), total \$2,300,000, i.e., \$1,387,845 in additional new construction costs and \$912,155 in additional renovation costs (\$912,155 + \$1,387,845 = \$2,300,000).<sup>3</sup>

Since the new construction and renovation cost estimates were more certain when the modifications were filed in August of 2009, BWMC reduced the contingency cost estimate from \$2,000,000 to \$1,500,000 in the Modified Project Budget. In addition, although BWMC had still not obtained itemized costs for IT equipment and furniture, the admittedly “high” estimate was reduced by \$1,800,000, i.e., from \$2,993,095 to \$1,193,095. BWMC’s preliminary view that \$1,193,091 was probably sufficient for equipment costs not yet known (IT and furniture) has been confirmed by the itemized cost estimates recently obtained. These estimates are noted below. The itemized lists are attached collectively as **Exhibit 2**.

Additional Itemized Equipment Costs

IT	\$590,612
Furniture	<u>\$216,662</u>
Total	\$807,274

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<sup>1</sup> This number also reflected the difference between the cost estimate for the other components of the project and the project cost approved by the UMMS Board of Directors.

<sup>2</sup> (\$17,042 – \$2,000 = \$15,042,000); \$2,000 in air handler cost inadvertently included in the new construction line in the Modified Project Budget filed on August 21, 2009.

<sup>3</sup> (\$15,042,000 – \$13,654,155) = \$1,387,845 + (\$6,283,000 – \$5,370,845) = \$912,155 = \$2,300,000.

This additional itemized equipment cost (\$807,274) rather than the projection in the Modified Project Budget filed in August 2009 (\$1,193,095) has been included in the Revised Modified Project Budget attached as **Exhibit 3**. Although the amount of debt associated with this project has not changed, the lower project costs, reducing the amount of cash BWMC will use for this project impacts depreciation on Table 3. As the project cost is lower, lower depreciation is reflected on Revised Table 3, attached as **Exhibit 4**.

In preparing the response to this question, BWMC realized that the air handler cost included in equipment in the original Project Budget (\$2,000,000) was inadvertently included in the new construction line in the Modified Project Budget filed with in August 2009. The MVS analysis done in conjunction with the modifications, accordingly included \$2,000,000 in new construction that should have been included with equipment. A corrected MVS analysis is attached as **Exhibit 5**.

**B. Provide an explanation of why a contingency allowance equivalent to 10.5% of the estimated construction and renovation cost was considered correct when the original budget was prepared and why a contingency allowance equivalent to just 6.4% of the estimated construction and renovation cost is considered correct today.**

The original cost estimate was based on the information available at that time. The contingency was reduced to \$1,500,000 in the Modified Project Budget because better estimates as to the revised construction costs were available. BWMC believes that the higher 10.5% contingency was appropriate in light of the less certain construction and renovation cost estimates that were available when the application was filed in February 2009.

- 3. Please explain where payments on the principal balance of loans for the project are included in Table 3 of the CON application (p58). The line in Table 3 for this information ("project amortization") was blank, and the assumptions listed for Table**

**3 in your response to completeness questions did not address this issue.**

Payments for the principal balance are included in BWMC's balance sheet and not on Table 3, which is an income statement. The amortization line on an income statement, like Table 3, is used to "spread" the costs for intangible assets, such as goodwill, over the "life" of those assets. BWMC's income statement does not include any costs associated with amortization of intangible assets. Hence, nothing was included in the amortization line on Table 3.

Respectfully submitted,



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Jack C. Tranter  
Gallagher Evelius & Jones LLC  
218 N. Charles Street, Suite 400  
Baltimore, Maryland 21201  
(410) 727-7702  
Attorneys for Baltimore Washington  
Medical Center

September 25, 2009

## **Exhibit 1**

## BWMC OR CON - NPV Analysis

### Build Shell & Fit out in 2017

Discount factor	5%					
					Additional Air Handler Relocation	
	<u>Year</u>	<u>Shell cost</u>	<u>Interest Costs</u>	<u>Fit-out cost</u>		<u>Total Costs</u>
Total cost	2017	\$2,332,566	\$ -	\$2,740,013	\$1,000,000	\$6,072,579
	2016					-
	2015					-
	2014					-
	2013					-
	2012					-
	2011					-
	2010					-
Undiscounted Costs		\$ 2,332,566	\$ -	\$ 2,740,013	\$ 1,000,000	\$ 6,072,579
Total PV as of 2010	2010	\$1,657,711	-	\$1,947,276	\$710,681	\$4,315,668

### Build Shell in 2010, Fit out in 2017

Discount factor	5%					
					Additional Air Handler Relocation	
	<u>Year</u>	<u>Shell cost</u>	<u>Interest Costs</u>	<u>Fit-out cost</u>		<u>Total Costs</u>
	2017	\$ -	\$ 48,242	\$ 2,740,013	\$ -	\$ 2,788,255
	2016		48,397			48,397
	2015		48,553			48,553
	2014		48,708			48,708
	2013		48,864			48,864
	2012		49,020			49,020
	2011		-			-
	2010	1,181,706	-			1,181,706
Undiscounted Costs		\$ 1,181,706	\$ 291,784	\$ 2,740,013	\$ -	\$ 4,213,503
Total PV as of 2010		\$ 1,181,706	\$ 246,722	\$ 1,947,276	\$ -	\$ 3,375,704

### Savings of Build 2010 - Fit out 2017

PV savings	\$939,965
% savings	28%




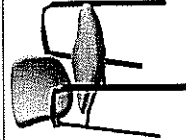


## **Exhibit 2**

<b>IT Estimate</b>							
<b>BW OR Expansion Project to add 3 OR's</b>							
Cerner's Surginet Application will be used with tracking boards in each room							
Fugi PACS Radiographic images will be displayed on in-room monitors. To be determined if other images from in-room modalities will be displayed on in-room monitors or modality monitors							
<b>IT Peripherals &amp; estimated costs</b>					<b>#</b>	<b>Per Unit</b>	<b>Total</b>
1 32" monitor/boom					12	1100	13200
2 PCs/room (RN, MD)					6	1903	11418
1 42" monitor/room					3	1800	5400
PC/Office/shared space					68	1903	129404
WOWs					6	4110	24660
Zebra Lab Label printer 1/room					6	1630	9780
Laser printer					6	1125	6750
Other support equipment includes							
Phones 50 Desktop + 20 SpectraLink							40,000
Multipurpose fax/copy/printer (service)							
Network							
Should assume wireless access through-out							
Data Network costs for 180 devices incl. wireless access							250,000
Integration							100,000
					<b>Total</b>		<b>590,612</b>

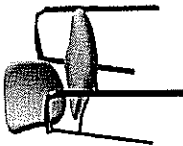
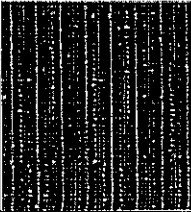

# Furnishings: Fabrics and Finishes FIRST FLOOR

October 14, 2008

Model #	Item Description	Fabric	Finish 1	Finish 2	Quantity	Sell	Total
M271-1041	Haworth Improv H.E. XL Chair without arms, Pneumatic Height Adjustment/Back-Lock	Maharam 8A-M07 Chance, Color: Pond	TR-F Black		11	\$ 630.00	\$ 6,930.00
							
M600-2110	Haworth Improv 4-Leg Stack Chair with Arms, Polypropylene Back/Upholstered Seat	Haworth + Carnegie - Fortune 6822	Haworth TR-F Black		31	\$ 303.61	\$ 9,411.91
							
M251-1741	Haworth Improv HE High-Back Task Chair, standard version, hard casters	Haworth/Maharam Chance 464010, Color: 003 Bayou	Haworth TR-F Black		20	\$ 395.85	\$ 7,917.00
							
M600-2110	Haworth Improv 4-Leg Stack Chair with Arms, Polypropylene Back/Upholstered Seat		Haworth TR-F Black		14		
							
	Haworth Improv 4-Leg Stack Chair with Arms, Polypropylene Back/Upholstered Seat	Haworth/Maharam Chance 464010, Color: 003 Bayou	Haworth TR-F Black		68	\$ 432.00	\$ 29,376.00




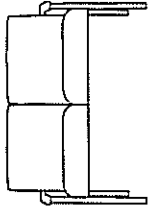
**Furnishings: Fabrics and Finishes**  
**FIRST FLOOR**

October 14, 2008

Model #	Item Description	Fabric	Finish 1	Finish 2	Quantity	Sell	Total
M600-2110							

# Furnishings: Fabrics and Finishes FIRST FLOOR



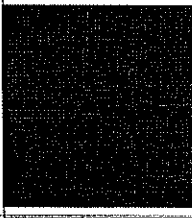


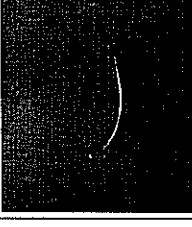
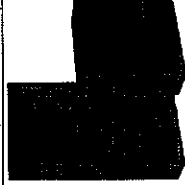
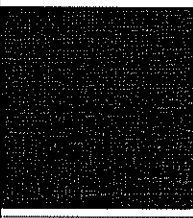

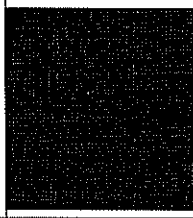
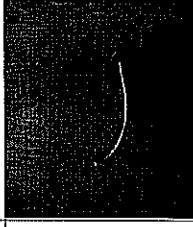
October 14, 2008

Model #	Item Description	Fabric	Finish 1	Finish 2	Quantity	Sell	Total
M231-1721	Haworth Improv HE Mid-Back Task Chair, standard version, soft casters 	Haworth/Maharam Chance 464010, Color: Pond	Haworth TR-F Black				\$ -
V2022-5	Paoli Executive Swivel Task Chair, Casters for Carpet, 29"W x 30"D x 41-1/2"H, 1 CAL 117 Seat Foam (standard) 	Black Leathermate	Black		2	\$ 360.00	\$ 720.00
FX501-10	Foxman by Nemschoff Springfield Lounge Chair with Wipeout, 24"W x 25.25"D x 33.5"H 	Architex Medley - Mixed Bag	Honey on selected hardwood		66	\$ 957.00	\$ 63,162.00
FX501-20	Foxman by Nemschoff Springfield Lounge Chair with Wipeout, 24"W x 25.25"D x 33.5"H 	Architex Medley - Mixed Bag	#9 Honey on Maple		8	\$ 1,589.00	\$ 12,712.00

# Furnishings: Fabrics and Finishes

## FIRST FLOOR


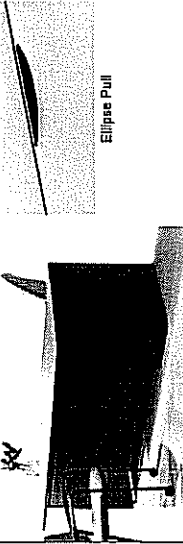
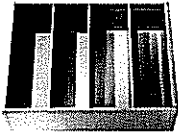
October 14, 2008

Model #	Item Description	Fabric	Finish 1	Finish 2	Quantity	Sell	Total
R422E-1	Paoli Revival Guest Chair, Upholstered back with Arms and Wipeout, 21-1/4"W x 24-1/2"D X 35"H	Haworth + Carnegie - Fortune 6822	Golden Cherry		6	\$ 372.00	\$ 2,232.00
							
RF2454LF	Paoli 4-Drawer Lateral File, TC Cove Edge, P8 Matte Black #8, Veneer Finish, Laminate Top	N/A	Golden Cherry		2	\$ 996.00	\$ 1,992.00
							
LT1472BO	Paoli Revival Bookcase, 5 Shelf (4 adjusting), 36"W x 15"D x 72"H, Laminate (Bolt to wall)	N/A	Golden Cherry		2	\$ 436.00	\$ 872.00
							
RTCER-TCP8	Paoli Revival Executive Workstation with Right Return, Desk: 66" x 30", Return: 24" x 48", with 3/4 BBF & FF pedestals, keyboard tray, grommets, #8 Black Pulls - No Center Drawer. All items in	N/A	Golden Cherry	P8 Matte Black #8 Pulls	2	\$ 1,425.00	\$ 2,850.00
							

# Furnishings: Fabrics and Finishes

## FIRST FLOOR

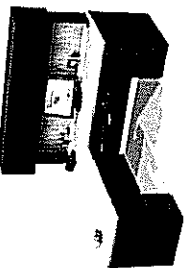
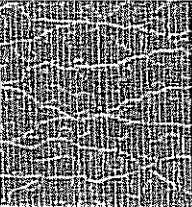
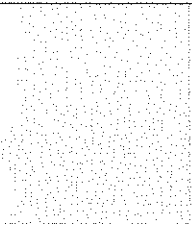
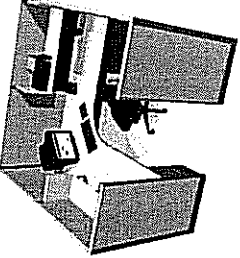
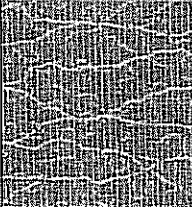
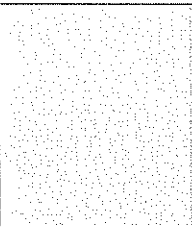
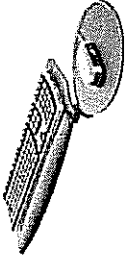
October 14, 2008

Model #	Item Description	Fabric	Finish 1	Finish 2	Quantity	Sell	Total
LTCER / LTCEL	<p>Right Return 7 1 with Left Return), Desk: 66" x 30", Return: 24" x 48", with 3/4 BBF &amp; FF pedestals, Laminate top, laminate #8, Black Pulls, No Casters</p> 	N/A	Golden Cherry	P8 Matte Black #8 Pulls	0	\$ -	\$ -
JFDL-3060-JHS1	<p>Haworth X Series Standard Desk, 30" x 60", Laminate, File/File, Box/Box/File, Ellipse Pull, Desks to be keyed individually.</p> 	N/A	Laminate Top: H-EC Quail Nest	Metal Surfaces: TR-R Beige	0	\$ -	\$ -
	Haworth X Series Bookcase, 4 Shelf, 4 x 36", Bolted to Wall	N/A	TR-R Beige		8	\$ 250.00	\$ 2,000.00
JBCS-0436							

# Furnishings: Fabrics and Finishes

## FIRST FLOOR

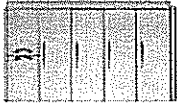
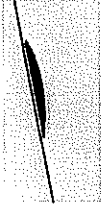
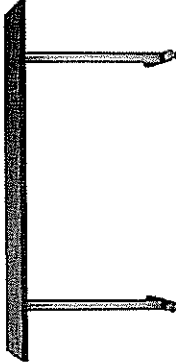
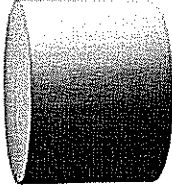
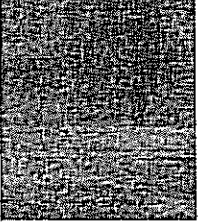
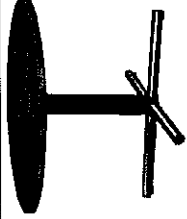
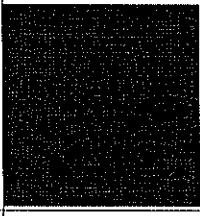
October 14, 2008

Model #	Item Description	Fabric	Finish 1	Finish 2	Quantity	Sell	Total
JFDL-3060-HRS1; JFRL-2442-JLS1; NFUS-3372	Haworth X Series Desk, 30" x 60", Box/Box/File Pedestal; Return: 24" x 42" with File/File Pedestal; Vertical Storage Hutch with Steel Door, 34" x 72" with Tackboard 	Tackboard: FX-03 Vines - Liana 	TR-R Beige	Laminate H-EC Quail Nest 	10	\$ 1,932.14	\$ 19,321.40
						2-right 8-left	
	Haworth Places System Std 6' x 6' x 66" 	Tackboard: FX-03 Vines - Liana 	TR-R Beige	Laminate H-EC Quail Nest 	10	\$ 3,034.00	\$ 30,340.00
N/A							
	ISE Keyboard Tray 	N/A	N/A		20	\$ 192.50	\$ 3,850.00
A-RSTL-VALUE							




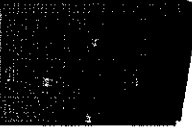
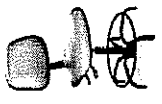
# Furnishings: Fabrics and Finishes FIRST FLOOR

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Model #	Item Description	Fabric	Finish 1	Finish 2	Quantity	Sell	Total
JLPS-0536-S1	Haworth X Series Lateral File, 5 Drawer with Swing Doors, Ellipse Pull, 36"W x 63.5"H x 18.25"D	N/A	TR-R Beige		15	\$ 619.38	\$ 9,290.70
	 Ellipse Pull 						
10580 / 15222	Fixtures Table with Saturn Base, 36"W x 72"L x 29"H	N/A	Laminate: Wilsonart #4623-60 Graphite Nebula	Edge: Black Bumper T-Mold; Base: Black W40	2	\$ 349.00	\$ 698.00
							
A47505-0	Nemschoff End Table, Standard Drum with Plinth Base (CW24 Cylinder) 24" Diameter x 21"H	N/A		N/A	21	\$ 397.31	\$ 8,343.51
							
RT4848T-CT	Paoli Executive Round Veneer Table, TC Cove Edge, 48" Diameter x 28"H	N/A		N/A	2	\$ 818.34	\$ 1,636.68
							

Furnishings: Fabrics and Finishes  
FIRST FLOOR

October 14, 2008

Model #	Item Description	Fabric	Finish 1	Finish 2	Quantity	Sell	Total
	Lenox Plastic Antimicrobial Dual Teir Locker 15"w x 18"d x 72"h 	not determined	not determined				\$ -
	Lenox Plastic Antimicrobial Single Teir Locker 15"w x 18"d x 72"h 	not determined	not determined				\$ -
	Height Adj Stool w/adj./Foot Ring, back tilt and backrest height adj. (adjusts 19"-26") uph back/seal in color of choice FULL LIFETIME WARRANTY 	Navy Vinyl	Black		9	\$ 334.13	\$ 3,007.17
EEEN1926- XR-ATF (Desk/Cou nter Height)							
				TOTAL			\$ 216,662.37

## **Exhibit 3**

**PART II – REVISED MODIFIED PROJECT BUDGET (9/25/09)**

**(INSTRUCTION: All estimates for 1.a.-e., 2.a.-h., and 3 are for current costs as of the date of application submission and should include the costs for all intended construction and renovations to be undertaken.)**

**A. Use of Funds**

**1. Capital Costs:**

**a. New Construction**

(1) Building	\$13,592,000
(2) Fixed Equipment (not included in construction)	In Building
(3) Land Purchase	\$0
(4) Site Preparation	\$0
(5) Architect/Engineering Fees	\$900,000
(6) Permits (Building, Utilities, etc.)	\$550,000
	<hr/>

**SUBTOTAL** \$15,042,000

**b. Renovations**

(1) Building	\$5,483,000
(2) Fixed Equipment (not included in construction)	In Building
(3) Architect/Engineering Fees	\$550,000
(4) Permits (Building, Utilities, etc.)	\$250,000
	<hr/>

**SUBTOTAL** \$6,283,000

**c. Other Capital Costs**

(1) Major Movable Equipment	\$6,714,179
(2) Minor Movable Equipment	\$0
(3) Contingencies	\$1,500,000
	<hr/>

**SUBTOTAL** \$8,214,179

**TOTAL CURRENT CAPITAL COSTS**

(a - c) \$29,539,179

**d. Non Current Capital Cost**

Interest (Gross)	\$1,575,000
Inflation (24 Months @ 5%)	\$1,575,000

**TOTAL PROPOSED CAPITAL COSTS**

(a - d) \$32,689,179

2. Financing Cost and Other Cash Requirements:

a. Loan Placement Fees	\$825,000
b. Bond Discount	\$0
c. Legal Fees (CON Related)	\$35,000
d. Legal Fees (Other)	\$100,000
e. Printing	\$11,000
f. Consultant Fees	\$0
CON Application Assistance	\$25,000
Other (specify)	\$0
g. Liquidation of Existing Debt	\$0
h. Debt Service Reserve Fund	\$2,475,000
i. Principal Amortization Reserve Fund	\$0
j. Other	\$0
<b>TOTAL (a - j)</b>	<b>\$3,471,000</b>

3. Working Capital Startup Costs: \$0

**TOTAL USES OF FUNDS (1 - 3)** **\$36,160,179**

**B. Sources of Funds for Project**

1. Cash	\$2,830,179
2. Pledges: Gross	
less allowance for uncollectables	
= Net	
3. Gifts, bequests	
4. Interest income (gross)	\$330,000
5. Authorize Bonds	\$33,000,000
6. Mortgage	
7. Working capital loans	
8. Grants or Appropriation	
(a) Federal	
(b) State	
(c) Local	
9. Other (specify)	

**TOTAL SOURCES OF FUNDS (1 - 9)** **\$36,160,179**

Lease Costs:		Not Applicable	
a. Land	\$ _____	x _____	= \$ _____
b. Building	\$ _____	x _____	= \$ _____
c. Major Movable Equipment	\$ _____	x _____	= \$ _____
d. Minor Movable Equipment	\$ _____	x _____	= \$ _____
e. Other (Specify)	\$ _____	x _____	= \$ _____

## **Exhibit 4**

# OR CON - Table 3 (000's)

FY	Actual		Proj	Projected Years				
	2007	2008	2009	2010	2011	2012	2013	2014

<b>Revenue (000's)</b>								
Inpatient Services	174,278	184,694	200,452	211,379	219,949	228,865	233,540	238,312
Outpatient Services	95,477	107,909	116,049	122,460	129,108	134,629	137,362	140,152
Gross Patient Services Revenues	269,755	292,603	316,501	333,839	349,057	363,494	370,902	378,464
Allowance for Bad Debt	(16,282)	(18,518)	(19,350)	(20,296)	(21,169)	(21,961)	(22,406)	(22,860)
Contractual Allowance	(18,972)	(20,277)	(22,743)	(24,961)	(26,253)	(27,901)	(28,480)	(29,072)
Charity Care	(3,106)	(3,785)	(3,798)	(4,006)	(4,189)	(4,362)	(4,451)	(4,542)
Net Patient Services Revenue	231,395	250,023	270,610	284,576	297,446	309,270	315,565	321,990
Other Operating Revenues (Specify)	2,680	2,280	2,409	2,433	2,457	2,482	2,507	2,532
Net Operating Revenue	234,075	252,303	273,019	287,009	299,903	311,752	318,072	324,522

## Expenses

Salaries, Wages, and Prof Fees, (w/ fringe)	122,434	130,645	138,153	145,920	151,356	155,560	158,189	160,874
Contractual Services	38,323	43,625	43,881	44,100	44,847	45,053	45,538	46,032
Interest on Current Debt	2,710	3,657	6,199	8,575	9,185	9,789	9,672	9,549
Interest on Project Debt						1,650	1,625	1,599
Current Depreciation	13,735	14,815	18,046	21,465	23,311	24,648	25,822	26,927
Project Depreciation						821	1,642	1,642
Current Amortization								
Project Amortization								
Supplies	44,754	47,510	53,224	54,738	56,019	57,034	57,993	58,971
Other Expenses (utilities/fees/insurance)	4,395	4,170	11,862	15,532	16,224	16,946	17,140	17,340
Total Operating Expenses	226,351	244,422	271,365	290,330	300,942	311,501	317,621	322,934

<b>Income</b>								
Income from Operation	7,724	7,881	1,654	(3,321)	(1,039)	251	451	1,588
Non-Operating Income	3,134	1,994	(11,424)	1,980	1,980	2,099	2,478	2,976
Subtotal	10,858	9,875	(9,770)	(1,341)	941	2,350	2,929	4,564
Income Taxes	0	0	0	0	0	0	0	0
Net Income (Loss)	10,858	9,875	(9,770)	(1,341)	941	2,350	2,929	4,564

FY	Actual		Proj		Projected Years			
	2007	2008	2009	2010	2011	2012	2013	2014

**Patient Mix:**

A. Percent of Total Revenue								
Medicare	43.93%	44.18%	44.16%	42.16%	42.16%	41.16%	41.16%	41.16%
Medicaid	5.84%	5.19%	6.24%	7.24%	7.24%	7.51%	7.51%	7.51%
Blue Cross	12.55%	12.15%	11.96%	11.96%	11.96%	11.96%	11.96%	11.96%
Commercial Insurance	28.52%	29.63%	28.67%	29.67%	29.67%	30.40%	30.40%	30.40%
Self-Pay	8.75%	8.49%	8.47%	8.47%	8.47%	8.47%	8.47%	8.47%
Other (Specify)	0.41%	0.36%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

**B. Percent of Patient Days \ Visits \ Procedures**

Medicare	23.0%	25.9%	25.9%	24.9%	24.9%	24.0%	24.0%	24.0%
Medicaid	10.4%	10.1%	11.4%	11.9%	11.9%	12.4%	12.4%	12.4%
Blue Cross	12.8%	13.6%	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%
Commercial Insurance	28.2%	27.7%	26.3%	26.8%	26.8%	27.2%	27.2%	27.2%
Self-Pay	17.9%	15.9%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%
Other (Specify)	7.7%	6.8%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**Notes:**

The contractual allowance for FY07 and FY08 were reported as 22,078 and 24,062 respectively. Those numbers were reduced by 3,106 and 3,785 to account for charity care

FY09 charity care is projected based on 1.2% of Gross Patient Service Revenue (1.1% in FY07, 1.3% in FY08)

Patient Mix: % of Total Revenue is from the STAR REV report from B. Henciak

Adjusted 2010-2014 Payor mix due to OB (higher Medicaid & Commercial -- slightly lower Medicaid)



## **Exhibit 5**

### Standard .04B(7) – Construction Cost of Hospital Space.

The proposed cost of a hospital construction project shall be reasonable and consistent with current industry cost experience in Maryland. The projected cost per square foot of a hospital construction project or renovation project shall be compared to the benchmark cost of good quality Class A hospital construction given in the Marshall Valuation Service® guide, updated using Marshall Valuation Service® update multipliers, and adjusted as shown in the Marshall Valuation Service® guide as necessary for site terrain, number of building levels, geographic locality, and other listed factors. If the projected cost per square foot exceeds the Marshall Valuation Service® benchmark cost, any rate increase proposed by the hospital related to the capital cost of the project shall not include the amount of the projected construction cost that exceeds the Marshall Valuation Service® benchmark and those portions of the contingency allowance, inflation allowance, and capitalized construction interest expenditure that are based on the excess construction cost.

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A complete Marshall and Swift (“MVS”) analysis is included as Exhibit 6. The following summarizes the exhibit and explains BWMC’s rationale.

#### I. Marshall Valuation Service New Construction

##### Valuation Benchmark – New Construction

Type		Hospital
Construction Quality/Class		Good/A
Stories		3
Perimeter		747
Average Floor to Floor Height		14.0
Square Feet		27,650
f.1	Average floor Area	27,650
A. Base Costs		
		\$
	Basic Structure	306.33
	Elimination of HVAC cost for adjustment	0
	HVAC Add-on for Mild Climate	0
	HVAC Add-on for Extreme Climate	0
Total Base Cost		\$306.33
Adjustment for Differential Cost by Department		1.127

<b>Adjusted Base Cost</b>		<b>\$345.15</b>
<b>B. Additions</b>		
	Elevator (If not in base)	\$0.00
	Other	\$0.00
<b>Subtotal</b>		<b>\$0.00</b>
<b>Total</b>		<b>\$345.15</b>
<b>C. Multipliers</b>		
Perimeter Multiplier		0.90742632
		\$313.20
Height Multiplier (plus/minus from 12')		1.069
		\$334.81
Multi-story Multiplier (0.5%/story above 3)		1
		\$334.81
<b>D. Sprinklers</b>		
	Sprinkler Amount	\$3.30
<b>Subtotal</b>		<b>\$338.10</b>
<b>E. Update/Location Multipliers</b>		
Update Multiplier		1.05
		\$355.01
Location Multiplier		1.02
		\$362.11
<b>Calculated Square Foot Cost Standard</b>		<b>\$362.11</b>

Please note the factor in this calculation called “Adjustment for Differential Cost by Department.” The cost of constructing an average hospital is not representative of the cost of constructing an OR Suite. In Section 87, Page 8 of the MVS book, MVS provides departmental cost differentials for the construction of each type of area of a hospital, providing a multiplier which should be multiplied against the average hospital construction cost. The factor for OR Suites is 1.127. BWMC utilized this factor in calculating the final benchmark of **\$362.11**.

## Budget Differential Costs by Floor

<i>Floor</i>	<i>Department Name</i>	<i>Department Area (SF)</i>	<i>MVS Department Name</i>	<i>MVS Differential Cost Factor</i>	<i>Cost Factor x SF</i>
New Addition Space - Total Area = 27,650 sf					
1	Operating Rooms, Sterile Core, Operating Room Equipment Alcoves, Operating Room Storage, OR Offices, Central Storage Lockers	9,896	Operating Suite	1.59	15,734.64
1	Operating Room Shell	3,000	Unassigned	0.795	2385
1	OR Prep Area	8,910	Inpatient Unit	1.06	9444.6
1	Circulation	5,012	Internal Circulation	0.6	3007.2
1	Mechanical	832	Mechanical Equipment & Shops	0.7	582.4
	Total	27,650		1.126721	31,153.84

\* Note: Because the base for an OR Suite is 1.59, BWMC used 0.5 of this base for the factor for Unassigned Space.

## II. Cost of New Construction

<b>A. Base Calculations</b>	<b>Actual</b>	<b>Per Sq. Foot</b>
Building	\$13,592,000	\$491.57
Fixed Equipment	In Building	\$0.00
Site Preparation	\$0	\$0.00
Architectural Fees	\$900,000	\$32.55
Permits	\$550,000	\$19.89
Capitalized Construction Interest	\$1,003,864	\$36.31
<b>Subtotal</b>	<b>\$16,045,864</b>	<b>\$580.32</b>

However, this project includes Extraordinary Costs that should be removed from the comparison.

### B. Extraordinary Cost Adjustments

	<b>Project Costs</b>	<b>Associated Capitalized Construction Interest</b>	<b>Total</b>
Demolition: Removal of existing roof, exterior walls, windows etc	\$361,992	\$26,736	\$388,728

Preparation of existing concrete to receive new finishes	\$62,222	\$4,596	\$66,818
Cast-in-place concrete at roof for relocation on existing AHU	\$560,903	\$41,427	\$602,330
Three hour fire wall, required to separate existing structure from new	\$295,380	\$21,816	\$317,196
Preparation of existing structure to receive new steel structure	\$553,728	\$40,897	\$594,625
Temporary roof/patching/tie-in to keep existing ED dry during construction	\$68,238	\$5,040	\$73,278
M & E Preparation in Existing ED ceiling for Tie-in of new systems	\$541,689	\$40,008	\$581,697
Premunim due to phasing, Site constraints, working over and adjacent too Existing, etc	\$445,000	\$32,866	\$477,866
Remove/ Store/ Reinstall existing AHU's	\$526,938	\$38,918	\$565,856
Temporary AHU - supply air to existing ED	\$538,778	\$39,793	\$578,571
Supplemental Chiller - additional capacity requirement	\$89,150	\$6,584	\$95,734
<b>Total Cost Adjustments</b>			<b>\$4,342,697</b>

**C. Adjusted Project Cost    \$11,703,167.07**  
**Per square foot                                \$423.26**

These costs are caused by three factors.

1. BWMC must relocate two existing air handlers that are currently located where the new construction will occur. BWMC is adding a third air handler to serve the new space. However, the cost of the third air handler was not considered an Extraordinary Cost.
2. Adding space adjacent to and above functioning units (adjacent to the existing surgical suite and above the ED), has increased the cost of this project because great care must be taken so that the ongoing services are not disrupted. Work must be phased to assure that it does not interfere with services rendered.
3. The site is constrained, and materials cannot be stored on-site. There is a premium that has been applied to the costs due to increased costs and labor.

### III. Comparison

A. Adjusted Project Cost/Sq. Ft.	\$423.26
B. Marshall & Swift Comparison	\$362.11

The adjusted project cost is above the MVS Benchmark.

### IV. Marshall Valuation Service – Renovation

#### Valuation Benchmark – Renovation

Type		Hospital
Construction Quality/Class		Good/A
Stories		3
Perimeter		1,039
Average Floor to Floor Height		14.0
Square Feet		16,344
f.1	Average floor Area	16,344

#### A. Base Costs

	\$
Basic Structure	306.33
Elimination of HVAC cost for adjustment	0
HVAC Add-on for Mild Climate	0
HVAC Add-on for Extreme Climate	0
<b>Total Base Cost (sum of g,h,i, and j)</b>	<b>\$306.33</b>

#### Adjustment for Differential Cost by Department

	1.188
<b>Adjusted Base Cost</b>	<b>\$363.77</b>

#### B. Additions

	Elevator (If not in base)	\$0.00
	Other	\$0.00
<b>Subtotal</b>		<b>\$0.00</b>

<b>Total</b>	<b>\$363.77</b>
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#### C. Multipliers

Perimeter Multiplier	0.999254424
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\$363.50

Height Multiplier (plus/minus from 12') 1  
\$363.50

Multi-story Multiplier (0.5%/story above 3) 1  
\$363.50

**D. Sprinklers**

Sprinkler Amount \$0.00

**Subtotal** \$363.50

**E. Update/Location Multipliers**

Update Multiplier 1.05  
\$381.68

Location Multiplier 1.02  
\$389.31

**Calculated Square Foot Cost Standard** \$389.31

Please note the factor in this calculation called “Adjustment for Differential Cost by Department.” The cost of constructing an average hospital is not representative of the cost of constructing an OR Suite. In Section 87, Page 8 of the MVS book, MVS provides departmental cost differentials for the construction of each type of area of a hospital, providing a multiplier which should be multiplied against the average hospital construction cost. The factor for OR Suites is 1.18752092. BWMC utilized this factor in calculating the final benchmark of **\$389.31**.

Budget Differential Costs by Floor

<i>Floor</i>	<i>Department Name</i>	<i>Department Area (SF)</i>	<i>MVS Department Name</i>	<i>MVS Differential Cost Factor</i>	<i>Cost Factor x SF</i>
1	Family Waiting	5,440	Public	0.8	4352
1	Consult Rooms	290	Offices	0.96	278.4
1	Central Sterile	6,920	Central Sterile Supply	1.54	10656.8
1	Perioperative Offices	1,030	Offices	0.96	988.8
1	Mechanical	63	Mechanical Equipment & Shops	0.7	44.1
	Total	13,743		<b>1.18752</b>	<b>16320.1</b>

## V. Cost of Renovation

A. Base Calculations	Actual	Per Sq. Foot
Building	\$5,483,000	\$335.47
Fixed Equipment	In Building	\$0.00
Site Preparation	\$0	\$0.00
Architectural Fees	\$550,000	\$33.65
Permits	\$250,000	\$15.30
Capitalized Construction Interest	\$404,958	\$24.78
<b>Subtotal</b>	<b>\$6,687,958</b>	<b>\$409.20</b>

However, this project includes Extraordinary Costs that should be removed from the comparison.

### B. Extraordinary Cost Adjustments

	Project Costs	Associated Capitalized Construction Interest	Total
Preparation of existing concrete to receive new finishes	\$41,040	\$3,031	\$44,071
M & E Preparation in Existing ED ceiling from Tie-in of new systems	\$68,400	\$5,052	\$73,452
Premunim due to phasing, Site constraints, working over and adjacent too Existing, etc	\$250,000	\$18,464	\$268,464
<b>Total Cost Adjustments</b>			<b>\$385,987</b>

<b>C. Adjusted Project Cost</b>	<b>\$6,301,970.64</b>
<b>Per square foot</b>	<b>\$385.58</b>

These costs are caused by two factors.

1. Adding space adjacent to and above functioning units (adjacent to the existing surgical suite and above the ED), has increased the cost of this project because great care must be taken so that the ongoing services are not disrupted. Work must be phased to assure that it does not interfere with services rendered.



2. The site is constrained, and materials cannot be stored on-site. There is a premium that has been applied to the costs due to increased costs and labor.

#### **VI. Comparison**

<b>A. Adjusted Project Cost/Sq. Ft.</b>	<b>\$385.58</b>
<b>B. Marshall &amp; Swift Comparison</b>	<b>\$389.31</b>

The adjusted project cost is lower than the MVS Benchmark.